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loans made, guaranteed or lien accommodated pursuant to the RE Act;

(3) Insurance proceeds from mortgaged property;

(4) Damage awards and sale proceeds resulting from eminent domain and similar proceedings involving mortgaged property;

(5) Sale proceeds from mortgaged property sales requiring specific Administrator approval; and

(6) Funds which are restricted by RUS or RTB loan instruments to be held in trust for the Government or to be held for any other specific purpose.

(d) Any investment made in a rural development project prior to the date of the application for a deferment based on such project cannot be used to satisfy the requirements of this section.

§ 1703.305 Requirements for deferment of loan payments.

(a) Except as otherwise provided in paragraph (b) of this section, the borrower must make a cushion of credit payment equal to the amount of the payment deferred and subject to the following rules:

(1) Cushion of credit payments made prior to the date that an application for deferral has been approved by RUS cannot be used to satisfy the requirements of this section;

(2) Once a cushion of credit payment has been made to satisfy the requirements of paragraph (a) of this section, it must remain on deposit in the cushion of credit account on the date of the deferral or the deferral will not take place; and

(3) The cushion of credit payment must be received by RUS on the date the payment being deferred is due, or within 30 days prior to this date.

(b) A borrower may elect to consolidate in one application filed pursuant to § 1703.311, all of the related deferrals it wishes to receive in a twelve month period following application approval. In such a case, the requirement contained in paragraph (a)(1) of this section may alternatively be satisfied by depositing an amount equal to the aggregate deferrals covered by such application into the cushion of credit account at the time the first cushion of

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credit payment is due under paragraph (a)(1) of this section.

§ 1703.306 Limitation on funds derived from the deferment of loan payments.

Funds derived from the deferment of loan payments will not be used:

(a) To fund or assist projects which would, in the judgement of the Administrator, create a conflict of interest or the appearance of a conflict of interest. The borrower must disclose to the Administrator information regarding any potential conflict of interest or appearance of a conflict of interest;

(b) For any purpose not reasonably related to the project as determined by the Administrator;

(c) To transfer existing employment or business activities from one area to another; or

(d) For the borrower's electric or telephone operations, nor for any operations affiliated with the borrower unless the Administrator has specifically informed the borrower in writing that the affiliated operations are part of the approved purposes.

§ 1703.307 Uses of the deferments of loan payments.

The deferment of loan payments will be made to enable the borrower to provide funding and assistance for rural development and job creation projects. This includes, but is not limited to, the borrower providing financing to local businesses, community development assistance, technical assistance to businesses, and other community, business, or economic development projects that will benefit rural areas.

§ 1703.308 Amount of deferment funds available.

(a) The total amount of deferments made available for each fiscal year under this program will not exceed 3 percent of the total payments due during fiscal year 1993 from all borrowers on direct loans and insured loans made under the RE Act. For each subsequent fiscal year after 1993, the total amount of deferments will not exceed 5 percent of the total payments due for the year from all borrowers on direct loans and insured loans.

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(b) The total amount of annual deferments are subject to limitations established by appropriations Acts.

§ 1703.309 Terms of repayment of deferred loan payments.

(a) Deferments made to enable the borrower to provide financing to local businesses will be repaid over a period of 60 months, in equal installments, with payments beginning on the date of the deferment, and continuing in such a manner until the total amount of the deferment is repaid. The deferment payments will be made on either a monthly or quarterly basis depending on the existing repayment terms of the direct loan or insured loan being deferred. The deferment will not accrue interest.

(b) In the case of deferments made to enable the borrower to provide community development assistance, technical assistance to businesses, and for other community, business, or economic development projects not included in paragraph (a) of this section, the deferment will be repaid over a period of 120 months, in equal installments, with payments beginning on the date of the deferment and continuing in such a manner until the total amount of the deferment is repaid. The deferment payments will be made on either a monthly or quarterly basis depending on the existing repayment terms of the direct loan or insured loan being deferred. The deferment will not accrue interest.

(c) The maturity date of a loan may not be extended as a result of a deferment.

(d) If the required payment is not made by the borrower or received by the Administrator when due, the Administrator will reduce the borrower's cushion of credit account established under this subpart in an amount equal to the deferment payment required.

(e) The balance in a borrower's cushion of credit account shall not be reduced by the borrower below the level of the unpaid balance of the payment deferred.

§ 1703.310 Environmental considerations.

Prospective recipients of funds received from the deferment of loan pay-

ments are encouraged to consider the potential environmental impact of their proposed projects at the earliest planning stage and plan development in a manner that reduces, to the extent practicable, the potential to affect the quality of the human environment adversely.

§ 1703.311 Application procedures for deferment of loan payments.

(a) A borrower applying for a deferment must:

(1) Submit a certified board resolution to the Administrator requesting a deferment of principal and interest. The resolution must:

(i) Be signed by the president or vice president of the borrower;

(ii) Contain information on the total amount of deferment requested for each specific project;

(iii) Contain information on the type of project and the length of deferment requested as defined in § 1703.309; and

(iv) Specify which officer of the borrower has been given the authority to certify to those matters required in this section;

(2) Submit certification by the appropriate officer to the Administrator that the proposed project will not violate the limitations set forth in § 1703.306 and disclose all information regarding any potential conflict of interest or appearance of a conflict of interest that would allow the Administrator to make an informed decision;

(3) Submit certification by the appropriate officer to the Administrator that an investment in the rural development project will be made by the borrower in an amount equal to the deferred debt service payment;

(4) Submit certification by the appropriate officer to the Administrator that the amount of the deferment will not exceed 50 percent of the total cost of the project for which the deferment is provided;

(5) Submit certification by the appropriate officer to the Administrator that it will make a cushion of credit payment necessary to satisfy the requirement of § 1703.305(a);

(6) Submit certification by the appropriate officer to the Administrator that it will comply with § 1703.313 and provide documentation showing that